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Agenda item 9

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE WORK OF ITS THIRTEENTH SESSION

Addendum

Resumed thirteenth session
(6-7 November 1997)

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Introduction

1. The Programme and Budget Committee resumed its thirteenth session at UNIDO Headquarters, Vienna International Centre, from 6 to 7 November 1997, under the chairmanship of Mr. J.P.G. Freeman (United Kingdom of Great Britain and Northern Ireland).

2. In accordance with its conclusion 97/4, paragraph (c), the Committee resumed consideration of item 6 of the agenda of its thirteenth session, i.e. programme and budgets, 1998-1999. The Committee also discussed the financial situation of UNIDO (item 4).

3. The following 24 of the 27 members of the Committee participated in the session:

Austria, Belgium, Brazil, Denmark, Ecuador, Egypt, France, Germany, India, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Republic of Korea, Romania, Russian Federation, Saudi Arabia, Slovakia, Switzerland, Thailand, United Kingdom of Great Britain and Northern Ireland and Uruguay.

4. The following 58 Members of UNIDO also attended the session:

Afghanistan, Algeria, Angola, Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Bosnia and Herzegovina, Bulgaria, Chile, China, Colombia, Croatia, Cuba, Czech Republic, Democratic People's Republic of Korea, Ethiopia, Finland, Georgia, Greece, Guatemala, Hungary, Indonesia, Iran (Islamic Republic of), Iraq, Ireland, Jordan, Lebanon, Liberia, Luxembourg, Malaysia, Morocco, Netherlands, New Zealand, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Qatar, Republic of Moldova, Slovenia, Spain, Sri Lanka, Sudan, Sweden, The former Yugoslav Republic of Macedonia, Tunisia, Turkey, Ukraine, United Arab Emirates, Venezuela, Viet Nam and Yemen.

5. The United Nations Office at Vienna, International Atomic Energy Agency, World Health Organization, European Commission and League of Arab States were represented.

6. The Rapporteur of the Committee, Mr. J.G. Young (Uruguay), who was unable to attend the resumed session, was succeeded in that function by Mr. F. Pittaluga Fonseca (Uruguay).

7. The report of the resumed session of the Programme and Budget Committee is submitted to the Industrial Development Board in accordance with Article 10.4 (d) of the Constitution.

8. The report contains the conclusions reached by the Committee. Explanations of vote made in connection with the adoption of conclusion 97/10 are included in annex I to the report. Annex II contains a list of documents submitted to the Committee at its current session.

9. The following conclusions of the Committee contain recommendations that call for action by the Board at its resumed eighteenth session, or are of relevance to the work of that session:

Conclusion	Subject
97/10	Programme and budgets, 1998-1999
97/11	Personnel and financial implications of the budget reductions
97/13	Date of the fourteenth session

I. PROGRAMME AND BUDGETS, 1998-1999 (item 6)

10. On 6 November, the Committee considered the revised proposals for the programme and budgets, 1998-1999 (PBC.13/14/6), and the personnel and financial implications of the proposed budget reductions (PBC.13/14/5/Rev.1) submitted by the Director-General, a report by the Chairman of the ad hoc open-ended working group on issues related to field representation (Mr. H. Förster, Netherlands) (PBC.13/CRP.5), and a note by the Secretariat on a major replacement programme (PBC.13/CRP.8).

11. On 7 November, the Committee considered a draft conclusion on the *programme and budgets, 1998-1999*, submitted by the Chairman (PBC.13/L.12), and two oral amendments also submitted by the Chairman. At the request of the representative of Germany, a vote was taken on the draft conclusion as amended. By 21 votes to one, the Committee adopted the following conclusion:

Conclusion 97/10

The Programme and Budget Committee:

(a) Recalled its conclusion 97/4;

(b) Having considered the revised proposals of the Director-General for the programme of work for the 1998-1999 biennium and the corresponding total resource requirements by Major Programme to be financed from the regular and operational budgets as contained in document IDB.18/15/6-PBC.13/14/6;

(c) Having also considered the views of Member States;

(d) Recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(i) Adopts for submission to the General Conference for consideration and approval the revised proposals of the Director-General for the programme and budgets for 1998-1999 as contained in document IDB.18/15/6-PBC.13/14/6 with the reductions listed in the annex to conclusion 97/10 of the Programme and Budget Committee;

"(ii) Recommends to the General Conference the approval on the basis of an exchange rate of US$ 1 = AS 12.90 of appropriations in the amount of $145,785,100 for the regular budget of the Organization in 1998-1999, as reflected in the following table:

	(In US dollars)		
	Appropriations	**Estimated income**	**Net requirements**
Policy-making Organs	6,680,000		6,680,000
General Management	10,474,000		10,474,000
Strengthening of Industrial Capacities	42,016,400		42,016,400
Cleaner and Sustainable Industrial Development	14,410,400		14,410,400
Regional Programme Management	20,235,900	895,500	19,340,400
Technical Cooperation Management	7,567,600		7,567,600
Administration	44,400,800	13,955,300	30,445,500
Miscellaneous Income		1,508,300	(1,508,300)
Total	**145,785,100**	**16,359,100**	**129,426,000**

Note: The amounts presented in the table are to be adjusted in accordance with the adjustment formula presented at the end of the present decision to take account of exchange rate variations during the biennium.

"(iii) Also recommends to the General Conference that the foregoing appropriations of $145,785,100 at an exchange rate of US$ 1 = AS 12.90 be financed from:

a. Payments of contributions by Member States under the provisions of financial regulation 5.5(e) amounting to $129,426,000 ($23,246,700 plus the equivalent in United States dollars of AS 1,369,714,050) in accordance with decisions to be adopted by the General Conference at its seventh session concerning the scale of assessments;

b. Miscellaneous and other income of $16,359,100;

"(iv) Further recommends to the General Conference the approval of estimates of net expenditure totalling $27,490,200 at an exchange rate of US$ 1 = AS 12.90 for the purpose of the operational budget for the biennium 1998-1999 to be financed from voluntary contributions and such other income as might be provided for in the financial regulations."

(e) The Programme and Budget Committee further recommended an increase in the allocation of Major Programme E by $100,000 and requested the Director-General to reflect this adjustment in the proposed programme and budgets, 1998-1999, to be submitted to the General Conference at its seventh session;

(f) There was a generally held view in the Committee that, in light of the significant budget reductions already made, any further reductions in the 1998-1999 or future budgets would seriously impair the capacity of UNIDO to fulfil its mandate.

Adjustment formula in US dollars

	Appropriations	US dollars			Austrian schillings
A.	Policy-making Organs	551,100	+	(	79,062,200 /R)
B.	General Management	2,592,700	+	(	101,668,900 /R)
C.	Strengthening of Industrial Capacities	4,687,200	+	(	481,547,200 /R)
D.	Cleaner and Sustainable Industrial Development	1,541,100	+	(	166,014,200 /R)
E.	Regional Programme Management	12,455,700	+	(	100,364,600 /R)
F.	Technical Cooperation Management	658,000	+	(	89,133,850 /R)
G.	Administration	2,612,500	+	(	539,069,500 /R)
	Subtotal appropriations	25,098,300	+	(	1,556,860,450 /R)
	Estimated income				
E.	Regional Programme Management	895,500	+	(	0 /R)
G.	Administration	294,000	+	(	176,230,600 /R)
	Miscellaneous	662,100	+	(	10,915,800 /R)
	Subtotal estimated income	1,851,600	+	(	187,146,400 /R)
TOTAL NET REQUIREMENTS		**23,246,700**	**+**	**(**	**1,369,714,050 /R)**

Note 1: The net requirements shown above assume a ratio of 18 per cent in US dollars and 82 per cent in Austrian schillings at an exchange rate of US$ 1 = AS 12.90.

Note 2: R represents the average United Nations exchange rate for Austrian schilling to US dollar which will be experienced during 1998-1999.

Annex

Table 1

Reductions introduced to document IDB.18/15/6-PBC.13/14/6

(In thousands of US dollars)

I.	**Programme reductions**	
1.	**Major Programme B. General Management**	
(i)	Programme B.5 - United Nations System Coordination and Liaison	
	- UNIDO Office at Geneva (one Professional, one General Service post and operating costs)	535.2
	- UNIDO Office at New York (one General Service post)	107.8
(ii)	Programme B.6 - Public Relations and Information	
	Other expenditures - language and documentation services	100.0
	Total reduction - Major Programme B.	**743.0**
2.	**Major Programme G. Administration**	
(i)	Programmes G.1 and G.4	
	Other expenditures - Library and Medical Services	70.0
(ii)	Programme G.3 - General Services	
	General operating costs	100.0
	Total reduction - Major Programme G.	**170.0**
3.	**Impact on the Regular Programme of Technical Cooperation (6% of budget)**	58.3
	Reductions (at 1996-1997 rates)	**971.3**
II.	**Recosting reductions**	
	Reduction of compounded cost increase rate from 2% per annum to 1.8% per annum and deletion of recosting on programme reductions	**503.7**
III.	**Total budget reductions**	**1,475.0**

Table 2

Budget adjustments

(In thousands of US dollars)

		1998-1999 budget at 1996-1997 rates	Recosting	Net requirements 1998-1999
A.	**Regular budget estimates - IDB.18/15/6-PBC.13/14/6**	**125,870.9**	**5,030.1**	**130,901.0**
B.	**Further budget reductions**			
	- Informal Working Group	(913.0)	(166.2)	(1,079.2)
	- 6% Regular Programme of Technical Cooperation	(58.3)	(2.2)	(60.5)
	- Adjustments to recosting - Informal Working Group		(335.3)	(335.3)
C.	**Subtotal**	**(971.3)**	**(503.7)**	**(1,475.0)**
D.	**Reduced budget**	**124,899.6**	**4,526.4**	**129,426.0**
E.	**Percentage reduction from budget base $156,360.7**	**20.12**		

12. On 7 November, after consideration of a draft conclusion on *personnel and related financial implications of the budget reductions* submitted by the Chairman (PBC.13/L.10), the Committee adopted the following conclusion:

Conclusion 97/11

The Programme and Budget Committee:

(a) Decided to establish an informal open-ended working group under the chairmanship of H.E. Mr. M.F. Khalil (Tunisia) to examine all relevant aspects relating to staff reductions to be undertaken in 1998, including policy criteria for such reductions and modalities for their financing, as outlined in document PBC.13/14/5/Rev.1, adjusted in PBC conclusion 97/10 on the programme and budgets, 1998-1999;

(b) Requested the working group to finalize its report by 17 November 1997 for submission to the Programme and Budget Committee;

(c) Decided to resume its thirteenth session for half a day, on 19 November 1997, during the resumed eighteenth session of the Industrial Development Board, for the sole purpose of considering the report of the working group.

II. FINANCIAL SITUATION OF UNIDO (item 4)

13. On 6 and 7 November, the Committee considered the financial situation of UNIDO submitted by the Director-General (PBC.13/15 and PBC.13/CRP.6) and a note by the Secretariat on the practice of borrowing by the United Nations specialized agencies (PBC.13/CRP.7).

14. On 7 November, after consideration of a draft conclusion on the *financial situation of UNIDO* submitted by the Chairman (PBC.13/L.13), and the introduction of an amendment by the representative of Luxembourg on behalf of the European Union, the Committee adopted the following conclusion:

Conclusion 97/12

The Programme and Budget Committee:

(a) Took note of the report of the Director-General on the financial situation of UNIDO (GC.7/20-IDB.18/20-PBC.13/15) containing information concerning the 1997 cash-flow crisis, borrowing, status of assessed contributions, advances to the Working Capital Fund, regular budget performance, operational budget status and the separation indemnity reserve;

(b) Noted that, despite considerable efforts made by the Secretariat, the collection rate of assessed contributions was continuing to deteriorate; the total amount of accumulated arrears as of 30 September 1997 stood at the equivalent of $117.3 million, as compared to $103.3 million on 30 September 1996;

(c) Urged those Member States that had not yet paid their assessed regular budget contributions, including advances to the Working Capital Fund, for the 1986-1987 to 1996-1997 bienniums, to take the necessary steps to ensure that their contributions are paid promptly and in full;

(d) Noted with concern the very irregular payment pattern by Member States and the consequences it might have on the Organization's ability to meet its commitments;

(e) Stressed the importance of reactivating—in view of the seriousness of the situation—the inter-sessional open-ended discussion group on timely payment of assessed contributions in order to continue the examination of possible measures for that purpose and to consider ways and means that would enable the Organization to meet its financial obligations when the reserves of the Working Capital Fund become inadequate;

(f) Requested its Chairman, in consultation with the President of the Industrial Development Board, to continue his endeavours to identify a chairperson for the discussion group;

(g) Further requested the group to submit appropriate proposals to the Board at its nineteenth session.

III. DATE OF THE FOURTEENTH SESSION (item 13)

15. On 7 November, the Committee adopted the following conclusion:

Conclusion 97/13

The Programme and Budget Committee decided to refer to the Industrial Development Board the question of the date for the fourteenth session of the Committee.

IV. ADOPTION OF THE REPORT AND CLOSURE OF THE THIRTEENTH SESSION (items 14 and 15)

16. On 7 November, the Committee adopted the draft report of its resumed thirteenth session (PBC.13/L.9) on the understanding that the Rapporteur would be entrusted with the task of finalizing the report.

17. The Committee suspended its thirteenth session at 8.50 p.m. on 7 November 1997.

Annex I

STATEMENTS BY DELEGATIONS

The present annex contains statements of explanation of vote made in connection with the adoption of conclusion 97/10 on the programme and budgets, 1998-1999.

The delegation of Germany stated that its authorities considered the draft proposal as presented in document PBC.13/L.13 unacceptable. The delegation therefore had to ask for a vote on the draft conclusion. The German proposals for additional reductions in the budget had not received the necessary support to join in a consensus. The delegation had made it clear that the German authorities could only accept a figure markedly above 20 per cent to arrive at a common solution. That target had not been reached and therefore the delegation had been instructed to vote against the draft proposal. The delegation of Germany recognized the considerable efforts that had been made by many delegations to arrive at a decision that entailed a very substantial reduction of the budget allocation. It also recognized the importance of the Business Plan which, in its view, was a very good basis for the future of the Organization. However, the negative vote of Germany should not be interpreted as a negative attitude with regard to its willingness to fulfil in time and fully its financial obligations. The delegation further stated that, as in the past, UNIDO could count on the readiness of its Government to effect an early payment in order to help at a critical time when there were cash problems ahead. Furthermore, the negative vote should not be seen as a signal for a decision to withdraw from the Organization. As stated on earlier occasions, according to the Cabinet decision of December 1996, a decision pertaining to the membership of Germany would be made in the light of a comprehensive assessment of the reforms achieved and consultations with partners. The delegation trusted that that overall assessment would have a positive result. It would also like to emphasize that Germany's proposals to reduce the budget should not be seen as attempts to reduce its contributions to the aid of the developing countries. Every dollar saved from the budget of UNIDO would be available for other parts of the German assistance programme. The delegation concluded by reiterating its deeply felt appreciation to all delegations involved for the constructive spirit that had guided all the deliberations on the reform process of UNIDO, and especially to the members of the Group of 77 who had not only shown understanding for the position of Germany but had also covered a long way to meet most of its concerns, but unfortunately not all.

Speaking on behalf of the Latin American and Caribbean Group, the delegation of Brazil wished to express the extreme concern of the Group with the figures of the budget to be adopted. As it had stated on previous occasions, the delegation believed that those figures were very severe indeed for a budget that was necessary to ensure the satisfactory functioning of the Organization. The Organization, which was particularly important for the countries of the Group, had been led for many years by a representative of Latin America and would continue to be led by a representative from Latin America in the years to come. The delegation further stated that the concern expressed by the Group should not be interpreted in any way yet as a wish not to accept a consensus. The Group was accepting it in a realistic way, being aware that that was a possible solution. As it had also said in the past, the Group would oppose any new reduction of the budget. The delegation also expressed the Group's satisfaction for the conciliatory way in which the discussions had developed over the course of the last few days of the Committee.

Speaking on behalf of the African Group, the delegation of Tunisia stated that the Group, which had already declared its support of the consensus, also wished to make it known how concerned it was by the drastic reductions in the Organization's budget. Such reductions would undoubtedly hamper the normal functioning of the Organization and, while the African Group went along with the consensus, it did so with the aim of safeguarding this Organization in which it believes. The consensus had been made possible by the spirit of cooperation and dialogue and the impartiality, arduous work and consultations of the Chairman of the Committee and thanks to the work of the Ambassador of India. However, the figures arrived at would not help the Organization function normally. In accepting them, the African Group had made concessions in order to continue operating and as a demonstration of the Group's capacity for dialogue and understanding. The Group

wished to express its appreciation to the Ambassador of Germany for his statement, in particular concerning his country's support of the Organization and the undertaking to continue to pay its assessed contributions. The Group had not doubted about that, being aware of Germany's efforts to assist the developing countries and its desire to play a leading role in that respect in multilateral organizations.

Speaking on behalf of the Asian Group, the delegation of India stated that the Group had been conscious of the need to preserve and strengthen UNIDO. The Asian Group, as a member of the Group of 77, had been very conscious also of the needs of the developing countries and the role played by UNIDO in that respect. But, in view of the realistic situation prevailing and the difficulties of some of the donor States, and in view of the fact that those were the least possible cuts that could have been made, the Asian Group would decide to go along with the consensus.

The delegation of Japan stated that it had voted in favour of the draft conclusion with a sense of much difficulty, in the belief that that was the only possible way by which the Organization could be saved. The delegation wished to state clearly once again that, although it recognized that some important improvements had been made in the budget, it still did not find it quite satisfactory. However, the delegation had not opposed it in a constructive spirit of compromise and particularly bearing in mind the special responsibility of the Government of Japan as the largest donor to the Organization. The delegation expressed its regret that the budget had not been adopted by consensus. It had very much hoped for the incorporation of more positive significant elements in the budget that would have enabled its adoption by consensus.

The delegation of Nigeria expressed its regret that the conclusion had been adopted by voting, in spite of all the work and the volume of documents that had been the subject of the draft proposal. It hoped that that was the last time that UNIDO engaged in the reduction of budgets and rationalization of its activities. The state of UNIDO was now earnest. The Organization, which was of mutual benefit to both the developing and the developed countries, should not be allowed to die. That was why the delegation was encouraging the members from the developed and developing countries to sincerely put into practice their usual promises and translate them into concrete action by paying their assessed contributions. It was encouraged by the statement made by the German delegation that their negative voting should not be interpreted as a wish to withdraw from the Organization or as lack of interest in its activities. It was hoped that other delegations would emulate or pay their assessed contributions. The delegation wished to encourage particularly those members from the developing countries who had not paid their assessed contributions to do so to encourage their partners in development to maintain their support to the Organization.

The delegation of France stated that it had voted in favour of the proposed budget, which had genuine merits and undoubtedly constituted a step forward and a significant reduction in the figures. Nevertheless, the budget was far from being totally satisfactory. Further savings could have been made in certain areas. In particular, one very serious deficiency was that it did not make provision for financing the separation indemnities. The delegation expressed its regret that the budget could not be adopted by consensus. Nonetheless, the delegation of France had not opposed it in a spirit of compromise, out of concern for political realism, in acknowledgement of the efforts deployed by the Chairman, the Ambassador of India and the chairmen of geographical groups, and so that those efforts should not have been expended in vain.

Annex II

DOCUMENTS SUBMITTED TO THE RESUMED THIRTEENTH SESSION

Symbol	Agenda item	Title
PBC.13/1/Add.2	3	Annotated provisional agenda
PBC.13/CRP.9	3	List of documents
PBC.13/15-IDB.18/20-GC.7/20	4	Financial situation of UNIDO. Note by the Secretariat
PBC.13/CRP.6-IDB.18/CRP.2	4	Financial situation of UNIDO. Note by the Secretariat
PBC.13/CRP.7-IDB.18/CRP.3	4	The practice of borrowing by the United Nations specialized agencies. Note by the Secretariat
PBC.13/14/6-IDB.18/15/6	6	Programme and budgets, 1998-1999. Revised proposals. Submitted by the Director-General
PBC.13/14/5/Rev.1-IDB.18/15/5/Rev.1	6	Personnel and financial implications of the proposed budget reductions. Submitted by the Director-General
PBC.13/CRP.5	6	Ad hoc open-ended working group on issues related to field representation. Report by the Chairman (H.E. Mr. Hans Förster, Netherlands)
PBC.13/CRP.8	6	Major replacement programme. Note by the Secretariat